

The Dow Chemical Company - Talking Points for ARB on Dec 16, 2010

Introduction

- I am Dale Backlund, Leader, Regulatory Affairs, Dow Pittsburg.
- I am here today to convey Dow's support for a well-designed, economy-wide cap-and-trade program for greenhouse gas emissions in California. For the record, Dow provided no financial or other support for Propositions 23 or 26.
- Dow is an energy-intensive company. About half of our operating costs are energy costs.
- Dow has eight facilities operating in California. I am here today to talk about Dow Pittsburg, which employs 500 Californians, spends \$53 million on local suppliers, AND provides \$15 million in state income taxes.
- Dow has been working with ARB staff and we intend to continue working to resolve our issues with the proposed regulation. We submitted written comments to ARB. Today, I'll highlight points that require further refinement in the regulation.

COMMENTS

- 1. Amend the Rule to include new reporters and participants who trigger the 25k threshold after 2008 and before 2011**
 - a. Dow Pittsburg is a New Reporter and is Newly Capped.** As of early 2010, the cumulative total CO2 emissions at the plant now trigger the ARB threshold for reporting. Dow Pittsburg will first report GHG in 2011 and is now a capped source under ARB's greenhouse gas cap and trade program.
 - b. ARB staff acknowledged to me last week that newly capped entities should be included and the regulation needs to be revised.**
- 2. Amend the Rule to add the applicable NAICS code for Dow Pittsburg (to Table 8-1) and add this code in the High Leakage Risk Category for Energy Intensive Trade Exposed (EITE) entities.**
 - a. Dow Pittsburg has global competition from China, India and elsewhere –** *briefly describe examples of product trade exposure.* Dow

is seeking adequate cost containment and recovery. We are providing benchmarking data to ARB to support our request.

3. Amend the Rule to address the limit of 110% on Allowance Allocations for EITE facilities. Current rule language penalizes purchased steam users.

- a. Approximately half of the allowances that Dow would otherwise receive are removed by this provision, leading to uncontained costs.
- b. This limit punishes Dow for purchasing steam instead of self-generating. Dow recommends that this limit NOT apply to steam purchased from a cogeneration unit.

4. Using a historical baseline to determine allowance allocations results in an unnecessary penalty for operational variability as well as for growth.

- a. For industrial boilers and heaters, a thermal intensity benchmark per ton of product could be applied to ensure that efficiency is maintained during periods of operational variability or growth. Dow proposed revised language.

5. Rule does not ensure Cost Containment for EITE Facilities to cover increased costs of purchased electricity.

- a. Dow recommends that ARB provide for EITE entities with High Leakage Risk to receive a direct allocation of free allowances for power purchased, whether from a distribution utility like PG&E or from an Independent Power Producer, like Calpine. To avoid double counting, ARB could exclude these allowances from the allocation of free allowances to the utilities.

6. In closing,

- a. Dow appreciates this opportunity to address the Board.
- b. Dow commends the ARB for its objectives to address the needs of trade exposed and energy intensive entities in the draft final regulation. The regulation could be further improved to meet these objectives
- c. We look forward to continued engagement with ARB staff to develop and approve a cap and trade program that reflects the recommendations raised in this testimony and Dow's written comments.